EXHIBIT 2
DATE 3-19-07
SB 165

CFSA
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Community Financial Services Association of America

Provided by:
Riley Johnson
for CFSA
3/19/2007

Federal Reserve Bank of New York Staff Study: Payday loans do not meet the definition of "predatory".

A forthcoming study, *"Defining and Detecting Predatory Lending,"* by Donald P. Morgan, Research Officer, Federal Reserve Bank of New York, and Samuel G. Hanson, Graduate Student, Harvard Business School, concludes that payday loans are not a "welfare reducing" form of credit. To the contrary, the authors suggest that payday lenders enhance the welfare of households by increasing the supply of credit.

Noting the difficulty in defining "predatory," the authors set out to distinguish predatory lending from "the kind that helps households maintain consumption even as their incomes fluctuate." They examined differences in household debt and delinquency across states that allow payday lending and those that do not and compared the change in those differences before and after the advent of payday lending. Particular attention was paid to households that seem more vulnerable to predation (those with income uncertainty or less education).

Noted in the report:

Payday loans are not welfare reducing, or "predatory"

"We define predatory lending as a welfare reducing provision of credit."

"Our findings seem mostly inconsistent with the hypothesis that payday lenders prey on, i.e., lower the welfare of, households with uncertain income or households with less education."

"On the whole, our results seem consistent with the hypothesis that payday lending represents a legitimate increase in the supply of credit, not a contrived increase in credit demand."

Payday loans may enhance the welfare of households

"Credit delinquency rates are not higher for households in states with higher payday loan limits."

"Households with uncertain income who live in states with unlimited payday loans are less likely to have missed a debt payment over the previous year...consistent with claims by defenders of payday lending that some households borrow from payday lenders to avoid missing other payments on debt."

"Those types of households who happen to live in states that allow unlimited payday loans are less likely to report being turned down for credit, but are not more likely, by and large, to report higher debt levels..."

Price does not make payday loans "predatory": limiting access raises prices

"Higher prices are neither necessary nor sufficient to conclude that a certain class of credit is predatory."

"We find somewhat lower payday prices in cities with more payday stores per capita, consistent with the hypothesis that competition limits payday loan prices...The problem of high prices may reflect too few payday lenders, rather than too many."

"Before payday lending...very small, short-term loans may not have been worthwhile for banks. Payday lending technology may have lowered those fixed costs, thus increasing the supply of credit...That suggests the payday innovation was welfare improving, not predatory."

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MEMO TO FILE 8/31/2006 by:

Katherine Bartcher, Paralegal

Check Into Cash, Inc, Cleveland, TN

On August 28th I called the Montana Division of Banking and Financial Institutions to inquire if there was a public access data base tracking complaints filed with their office regarding the payday loan industry. I was transferred to Chris Romano's voice mail and left a message to that effect. He returned my call later that day and advised that there was no actual data base but that he kept track of all of the complaints himself. He stated that they actually had very few of them considering the number of companies doing business and that he would be happy to send me an e-mail with the information that I had requested. He went on to say that the majority of the complaints received by his office dealt with title loan companies and that, in his opinion, we did a good job of following the rules. He obviously knew where I was calling him from as I used my office e-mail address. Below is a copy of the e-mail that he sent in response to my inquiry.

Katherine -

In the last 12 months the Montana Division of Banking and Financial Institutions has received 8 complaints related to payday lenders. Six of these complaints related to unlicensed activity of internet-based payday lenders. One complaint alleged unlicensed activity. One complaint related to the collection of an unpaid payday loan.

If you have any further questions, please call or email me.

Thank you.

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18 Section 1 Friday, August 13, 1999

Payday lending fills a need

The payday loan business is booming in Illinois and the reason is that these niche lenders focus on a market ignored by just about everyone else—working people who find themselves needing a couple of hundred dollars in a hurry.

Payday loan companies generally lend up to $500 for a couple of weeks for a fee—for example, $30 for $200—usually on the spot. Customers leave as collateral post-dated checks for the amount of the loan plus the fee.

A pay check and a checking account are the prime requirements for potential borrowers. There are no time-consuming credit checks, as there would be if these borrowers went to most banks, thrifts or credit unions. Most of those more traditional lending outfits also aren't interested in lending less than a minimum of, say, $500 or $1,000.

State Rep. Thomas Dart ((D-Chicago) is chairing an Illinois House task force that is looking into the industry's practices to determine if there are problem areas that need more regulatory scrutiny. Critics argue payday lenders charge exorbitant interest rates, particularly when loans are repeatedly rolled over.

One such critic is Chicago Ald. Toni Preckwinkle (4th). Testifying before Dart's task force, she called payday loan companies "predatory businesses" that at "its foundation is loan sharking."

The problems come when customers who may have borrowed that $200 for two weeks find they can't make good on that check at the end of that two weeks. So they roll it over for another two weeks and add on another $30 fee— and so on and so on. If such loans are extended week after week for a year, the effective annual interest rate does become exorbitant. But as Robert Wolfberg, general counsel of PayDay Loan Store of Illinois, pointed out, "We don't make annual loans."

Owen Cope, a customer at a Hyde Park payday loan office, put it best. "If you don't get there in time and do what you are supposed to do, there can be problems." That is absolutely true. Responsible adults must meet their obligations.

But provided customers are adequately informed about what those obligations are, they and these companies should be free to go about their business. People need money quickly for a short period of time for all kinds of reasons—and there should be a way for them to get it. It would be a travesty if, to protect those who aren't responsible, the do-gooders closed off this source of cash for the rest.

IN MONTANA:

- **Maximum loan is $300**
- **Minimum loan is $50**
- **Maximum loan period is 31 days**
- **Rolling over a loan is forbidden by law**

UNDER SB 165 PASSED BY THIS COMMITTEE & THE FULL SENATE:

- **Deferred deposit loans may <u>not</u> be renewed or extended**
- **A consumer can <u>not</u> enter into a deferred deposit loan who has an outstanding deferred deposit loan with another lender**